CitiFX® Technicals- Chart of the Week

Technical Developments in the Foreign Exchange and Asset Markets

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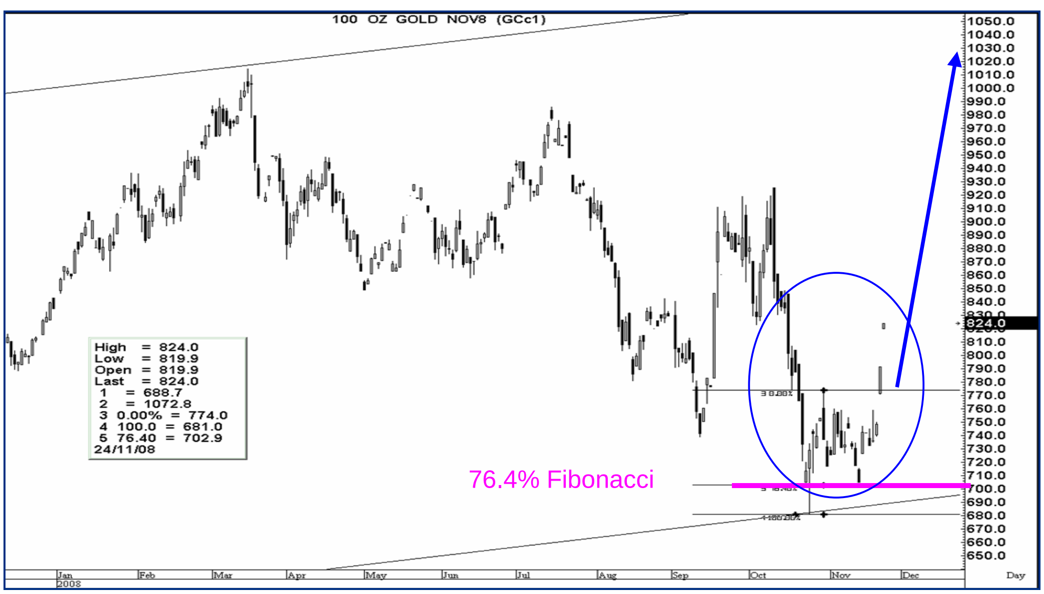
Tom Fitzpatrick (1-212-723-1344)
Shyam Devani (44-207-986-3453)
CitiFX.Technicals@citi.com

Chart of the week: BULL-ion

For those who refer to Gold as "That useless piece of yellow metal that has no real value and earns nothing" (And have done for years) they might want to look at financial market charts more closely.

Gold Future (GCc1)

Channel base from where we have formed a 76.4% Fibonacci retracement against the lows and exploded higher. This is a long term uptrend. From the channel base…

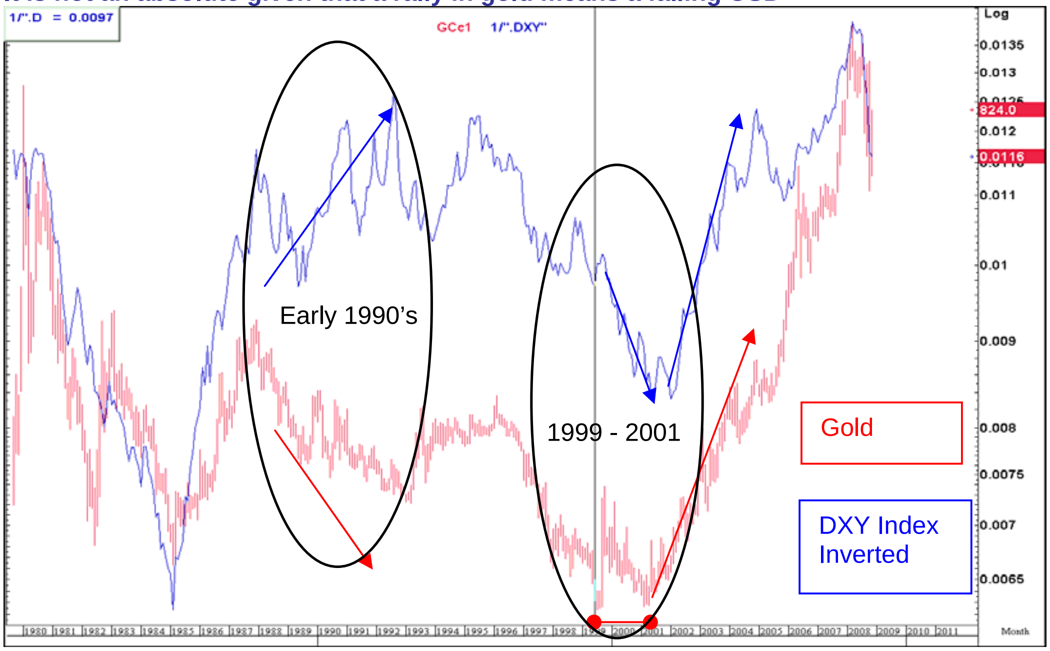


…76.4% Fibonacci against the lows. Resistance levels at $925, $986 and $1014 should be tested on the future. The high on the cash was $1,030.

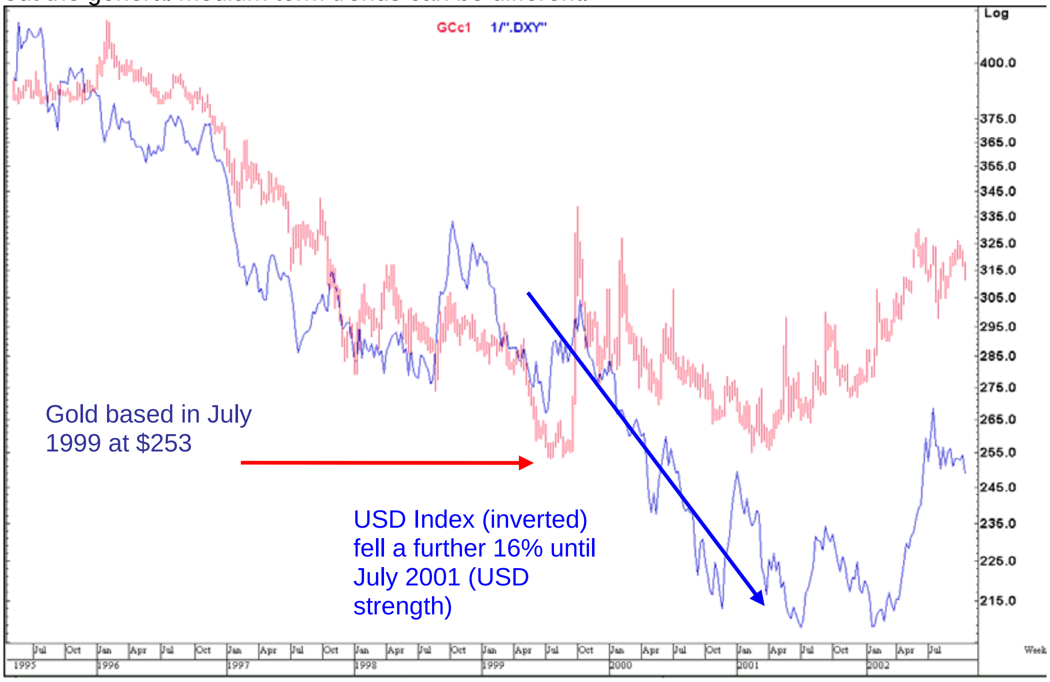
Gold Future Long term

Continues to look like a bull market to us. We continue to believe that a move of similar percentage to that seen in 1976-1980 bull market can be seen which **would suggest a price north of $2000.**

It is not an absolute given that a rally in gold means a falling USD



The circled areas show previous examples of when the relationship between gold and the USD became diluted. The first period was the early 1990's and the second was when gold based in 1999. As gold based in July 1999, the DXY (Inverted) fell 16% until July 2001 (i.e. the USD rallied). The chart below concentrates on that time period to further highlight that when gold turned the USD continued to rally considerably for 2 years. While the ST movements in Gold and the USD can be similar (inverse relationship), often when zooming out the general medium term trends can be different.



Below are relative charts of Gold showing it's out performance throughout the past several years against other asset classes. We increasingly believe as the excesses we have seen during these years have now created the corrosive down moves in areas such as equities, housing etc, that gold will continue to be a safer asset in which to be invested.

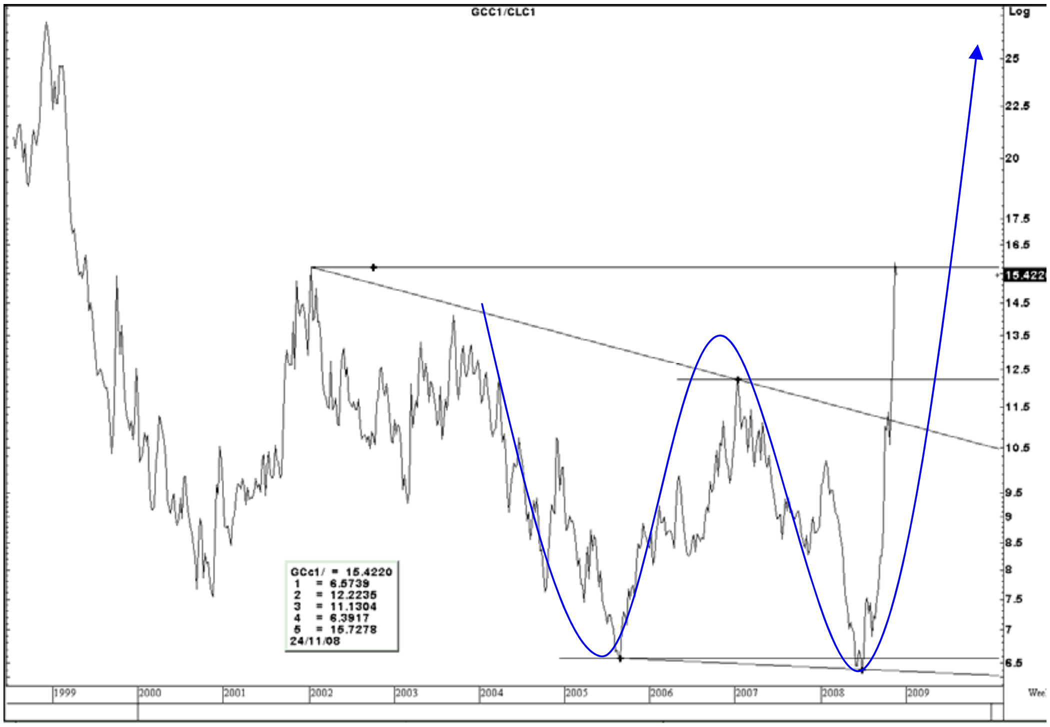
G10Gold

Gold measured in the other G9 currencies (equally weighted) has broken out to new highs.

Gold / Dow

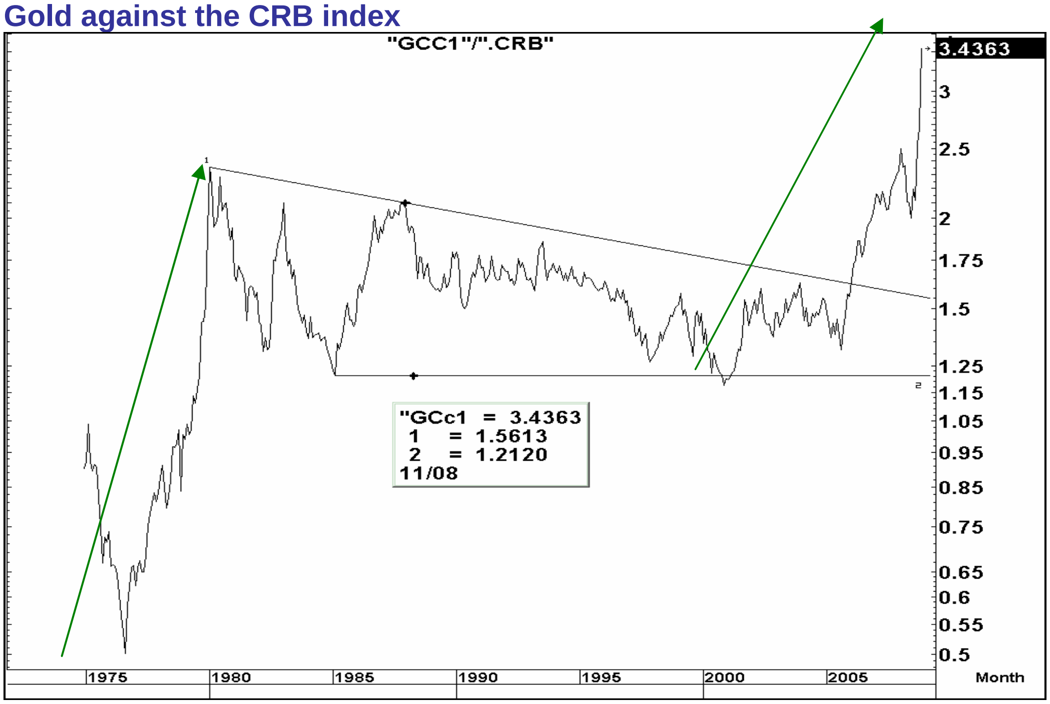
Gold / Dow Jones has rallied out of the bullish channel and is aggressively testing resistance. A ST rally through .106 would open the way for significant longer-term gains. The long-term resistance level is .164 followed by .170.

Gold / Crude



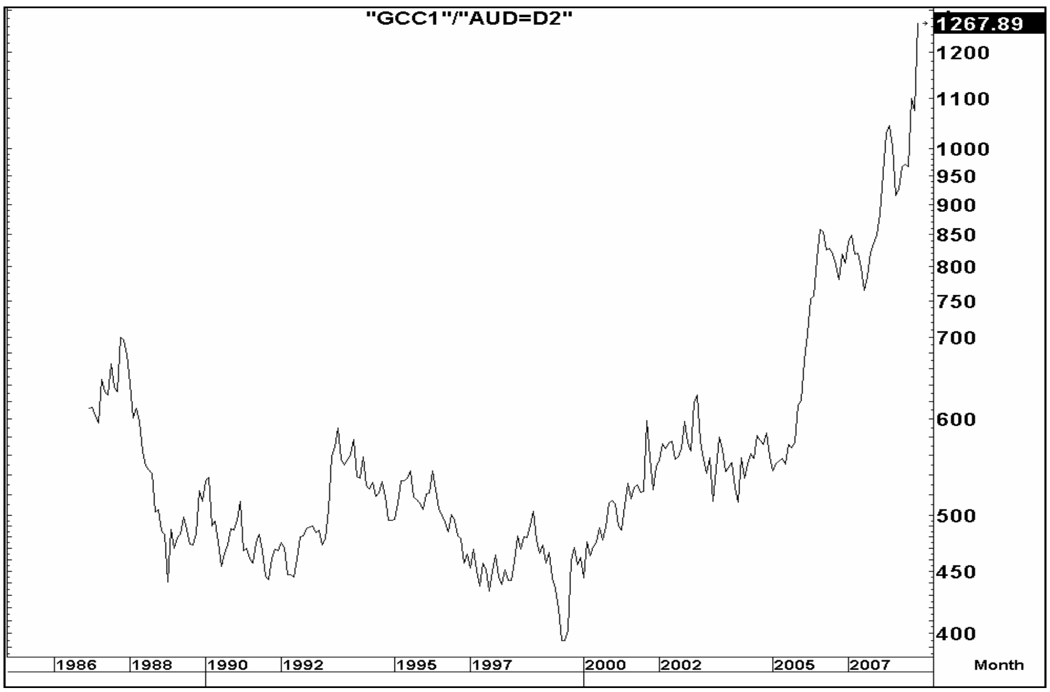
The double bottom on Gold / Crude targets 18 then 23.

Gold against the CRB index



Has exploded against other commodities and we would not be surprised to see this ratio as high as 5.5 if we replicate the percentages of 1976-1980

Gold against the archetypal commodity currency- The AUD



Picture speaks for itself

Gold 10-year treasury ratio

Starting to bounce again even against a very bid Bond market.

Conclusion:

While we believe that Gold could very well head above $2,000 we do not think that is today, tomorrow next week or next month.

We do however believe that it will happen over time as this financial / economic backdrop heads to "the wings"

What do we mean? The excesses of the last 10 to 25 years have come to fruition in the U.S. and across the World with severe repercussions for financial markets and the Global economy. There is an increasing recognition of this at official levels and the monetary and fiscal floodgates are starting to open.

We doubt, as a consequence, that we are just going to muddle through here. Our bias is that when the dust settles on all this action the authorities will have been very successful or very unsuccessful.

In the very successful arena is the idea that "throwing the kitchen sink" at this has worked and we see signs that the Global economy is reflating / inflating. As a consequence debt will get devalued and the wash of money in the system would suggest a greater likelihood of an inflationary outlook, which will benefit Gold.

In the very unsuccessful area is that too much damage has been done to the patient and as a consequence we continue to have financial instability. This will breed further economic instability, which could lead to political instability in some nations and possibly even domestic / regional unrest or worse. This deteriorating picture would also likely be a catalyst for Gold to perform well with a status of "safe haven"

Considered opinion is that all the Gold in the World can fit in a 25 square metre cube so even a relatively modest a change in the supply / demand dynamics could result in an outsize move in price. Gold has been used as a monetary instrument as far back as you can look. The same cannot be said about precious art or wine or fine cars etc. In times of extreme concern it is highly likely that it will regain that "luster"

As a consequence we remain of the view that Gold will continue to perform well and will do particularly well as the consensus grows as to how we will come out of this mess (or not). Compared to just about every other asset class in the last 5 to 7 years holders of Gold likely look mellow…it is the holders of other assets that are looking a bit "yellow"

CitiFX® Value Added Services & Products

Corporate Solutions Group

Cathy Chiang Agle	New York	1-212-723-1287	cathy.agle@citi.com
Matthew Daniel	New York	1-212-723-6855	matthew.daniel@citi.com
Erik Johnson	London	44-20-7986-1525	erik.johnson@citi.com
Stephane Knauf	New York	1-212-723-1274	stephane.knauf@citi.com
Joakim Lidbark	London	44-20-7986-1586	joakim.lidbark@citi.com
Hector Lugo	New York	1-212-723-1403	hector.lugo@citi.com
Masashi Mizobuchi	Tokyo	81-3-6270-9112	masashi.mizobuchi@citi.com

Emerging Markets

Stephen Leach	New York	1-212-723-9332	stephen.leach@citi.com

FX Strategy

Todd Elmer	New York	1-212-723-1240	todd.elmer@citi.com
Tom Fitzpatrick	New York	1-212-723-1344	thomas.fitzpatrick@citi.com
Michael Hart	London	44-20-7986-3311	michael.hart@citi.com
Michael Rosborough	London	44-20-7986-1339	michael.rosborough@citi.com
Aerin Williams	New York	1-212-723-3469	aerin.williams@citi.com

Quantitative Investor Solutions

Hetty Colchester	London	44-20-7986-1434	hetty.colchester@citi.com
Scott Dingman	New York	1-212-816-0892	scott.dingman@citi.com
Angeliki Ermogenous	New York	1-212-723-1515	angeliki.ermogenous@citi.com
Shuji Ikebuchi	New York	1-212-723-1510	shuji.ikebuchi@citi.com
Gultekin Isiklar	New York	1-212-816-4582	gultekin.isiklar@citi.com
Jessica James	London	44-20-7986-1592	jessica.james@citi.com
Kristjan Kasikov	London	44-20-7986-3032	kristjan.kasikov@citi.com
David Martinez	Irving, TX	1-972-653-9062	david.martinez@citi.com
Guy Saxton	Tokyo	81-3-6270-9124	guy.saxton@citi.com
Aysu Secmen	New York	1-212-723-1281	aysu.secmen@citi.com
Akshay Singal	New York	1-212-816-0836	akshay.singal@citi.com
Louis Yang	London	44-20-7986-9098	louis.yang@citi.com

Structuring Group

Mark Balascak	New York	1-212-723-1113	mark.balascak@citi.com
Michele Ghidoni	London	44-20-7986-1807	michele.ghidoni@citi.com
Alexandre Godet	London	44-20-7986-9381	alexandre.godet@citi.com
Mehdi Gzouli	New York	1-212-723-7951	mehdi.gzouli@citi.com
Joseph Hedberg	New York	1-212-723-1456	joseph.hedberg@citi.com
Stephane Knauf	New York	1-212-723-1274	stephane.knauf@citi.com
Saiful Pungot	Singapore	65-6328-5937	saiful.pungot@citi.com
Rene Schwarzl	London	44-20-7986-9647	rene.schwarzl@citi.com
Francesco Tonin	New York	1-212-723-1071	francesco.tonin@citi.com

Systematic Proprietary Trading Group

Richard Adams	London	44-20-7986-1609	richard.adams@citi.com
Daniel Lister	London	44-20-7986-1607	daniel.lister@citi.com
Dishni Muthucumarana	London	44-20-7986-1115	dishni.muthucumarana@citi.com
Krassimir Vanguelov	London	44-20-7986-4955	krassimir.vanguelov@citi.com

Technicals

Shyam Devani	London	44-20-7986-3453	shyam.devani@citi.com
Tom Fitzpatrick	New York	1-212-723-1344	thomas.fitzpatrick@citi.com

Value Added Products

Philip Brass	London	44-20-7986-1614	philip.brass@citi.com

Robert Giacomelli	New York	1-212-723-3481	robert.giacomelli@citi.com
Nicolas Thomet	Zurich	41-58-750-7646	nicolas.thomet@citi.com
Vanessa Vantol	London	44-20-7986-1804	vanessa.vantol@citi.com
Charles Wu	New York	1-212-723-3468	charles1.wu@citi.com

Value Added Services & Products –

Arnold Miyamoto	New York	1-212-723-1380	arnold.miyamoto@citi.com

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